RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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May 12, 1993 **LETTER 1121**

THE BIG PICTURE: Germany, the economic "engine" of Europe, is in recession. Japan, the world's second biggest economy, is in recession (unemployment in Japan is up for the first time in six years). Most of Europe is in recession. The US appears to be sinking back into recession. The great deflationary force of the Kondratieff wave is weighing down on the economies of the world. Japan is now embarking on a major reflation program. The US is attempting to reflate. Germany, with huge expenses brought on by the union with East Germany, is already running massive deficits. In fact, almost all Western nations are now running deficits and attempting to reflate. Result: a global push by central banks to "pump up the volume," to reflate, to create new oceans of paper currency. And voila -- rising gold.

The critical question -- Will governments be successful in their reflation efforts, and can they get their economies moving again? Answer: Dunno, nobody knows -- the jury is still out.

THE MARKET: In the last Letter I discussed in detail the "Buying Stampede" which has held the stock market in its grip since last October 9. The Stampede has produced some remarkable technical action.

For newcomers, I will repeat that a Buying Stampede is defined as *a rise of five points or more in the advance-decline ratio without so much as a one point intervening correction.*

Please refer to the chart on page 2. Note that the Buying Stampede began on October 9 at -10.91. The first attempt at breaking the Stampede occurred between February 4 and February 17, during which time the A-D ratio gave up 0.96 of a point, just 0.04 short of ending the Stampede. The next attempt at breaking the Stampede came between March 10 and April 4, during which time the A-D ratio gave up only 0.64 of a point.

The most recent attempt at terminating the Stampede occurred between April 16 and April 26, during which time the A-D ratio lost 0.97 of a point, exactly 0.03 short of one full point decline.

So we have seen three attempts by the bears to end the Buying Stampede. And remarkably, all three attempts failed, and on two of the three attempts the A-D ratio failed by the tiniest fraction to terminate the Stampede.

I must admit that I've never seen anything exactly like the action of the A-D during this period. Net result -- the Buying Stampede which began last October 9 hung on by a thread -- but yes, it still remains in force. And not one person in a thousand realizes what has happened.

From the standpoint of the D-J Averages, the picture remains bullish. All three Averages, Industrials, Transports and Utilities, hit record highs on April 16. Following those highs the market backed off enough to register a "semi-oversold" situation, and by the end of April and early May the market was again struggling to the upside.

As for my Primary Trend Index (PTI), it backed off from its high (see page 2 chart), but by May 5 it was back at its high. Result: it's still in its bullish mode. Many newer subscribers have never seen the PTI in a bear trend and don't believe it can happen. But believe me, the PTI is capable of traveling both ways.

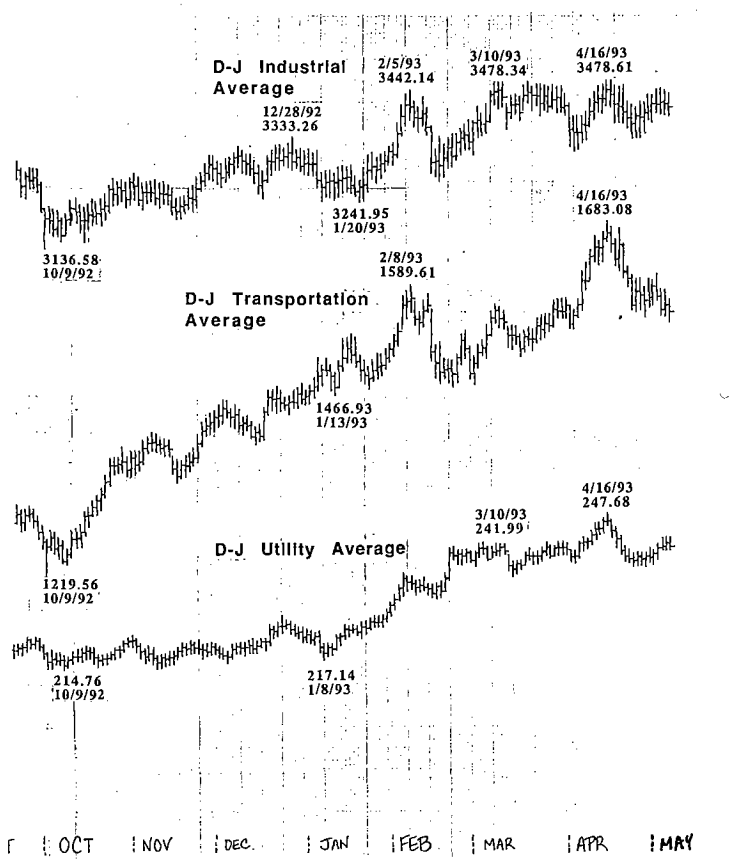
April 30 DJIA 3427.55; PTI 3776; A-D Ratio -5.23
May 7 DJIA 3437.19; PTI 3786; A-D Ratio -4.78
Dow Yield: 3.21%; Dow Price/Earnings: 31.2
Dow 200-day MA: 3318; Dow 30-day MA: 3448
Dow Times Book Value: 2.64; PTI 89-day MA: 3738
Percentage of Undervalued Blue-chips: 9%
Low Risk Buy Index: +64

The Dow is up only 3.8% for the year so far, while the very broad Wilshire 5000 is up only 0.6%. Considering the huge volume that we have seen during 1993, many analysts are saying that we are seeing "churning," better known as "stocks going nowhere on high volume."

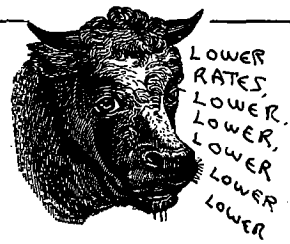
Actually, the Dow has advanced only 2.74% over the last twelve months, so the churning has been going on for quite a while. But the market is a law unto itself, and there's no law to suggest how long churning can go on before the advent of trouble.

My old friend, Gerry Weiss of *Investment Quality Trends* (here in La Jolla) notes in her latest report that the market is flagrantly overvalued and being greeted by "huge numbers of inexperienced investors flocking into the stock market, events which inevitably occur at major market tops."

What could happen? Gerry notes that if the Dow (assuming dividends stay where they are) drops to a 4% yield, the Dow will sell at 2477. If it drops to a 5% yield, the Dow will sell at 1981. If it drops to a 6% yield (in big bear markets it can do that) the Dow would sell at a depressing 1651. Of course, this is all bear market talk -- and there's no bear market yet. The bull is still in command.



INVESTMENT POSITION: The bull remains in the box. Question -- can you be invested in stocks during a bull market and not make money (or even lose money)? Answer, yes it's possible, and that's exactly what a lot of people are now experiencing.



The reason -- the market is being propped up by low interest rates and by the tens of billions of dollars that the public is throwing at the mutual funds. But it's been a see-saw game with one group going down while another group goes up. The net result is that most investors have ceased making money in this bull market and many new arrivals are now suffering losses.

It's obvious that I like the golds here. My suggestions on gold are contained in the gold section of this Letter.

CURRENCIES: If you want a barometer of the strength or weakness of a nation, probably the single best would be the action of its money. In the investment world, nothing comes near the currencies for sheer volume. How big is the FOREX (foreign exchange) market? It now trades well over one trillion dollars a day.

Everything is factored into the price of a currency -- a nation's interest rates, its savings rates, its economy, its safety, its military power, its balance-of-payments, its total debts, and so on.

A few months ago I noted that the dollar was looking toppy and the main hard currencies (yen, D-mark, Swiss franc) were bottoming. Since then, the picture has clarified. The dollar has turned weak, and almost all currencies have been rallying against the dollar.

At least on the face of it, the Clinton administration seems to have accepted the declining dollar as a plus. ("Hey, a cheaper dollar means that our exports are that much more attractive. So what if a cheap dollar hurts American tourists who want to visit Paris or London, let them stay home and spend their money in Miami.")

Why is the dollar weak? There are a number of possibilities. (1) A few months ago the word was the US economy was gathering strength and Europe and Japan were getting weaker. That perception could be changing. The new perception is that the US economy is struggling, and that we may be sinking back into recession. There's talk now of another discount rate cut by the Fed.

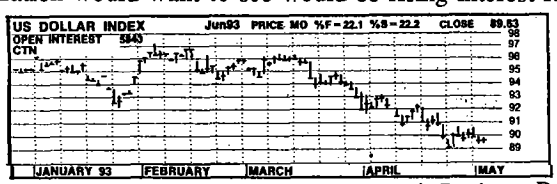
(2) Some FOREX traders believe (as I do) that the Clinton deficit reduction program is a phony, that it won't live up to its advanced billings, that the deficits will continue under Clinton and that they'll be as big or bigger than ever. Any way you look at it, Clinton will add a trillion dollars or more to the deficit during his first term of office.

(3) Some believe that the Russian mess will get much messier. They feel that Yeltsin will be history by year-end, and that the KGB and the hardliners will ultimately take over Russia. Then we'll be back to the Cold War, and that means that all thoughts of deficit reduction will go out the window as the US builds up its military again.

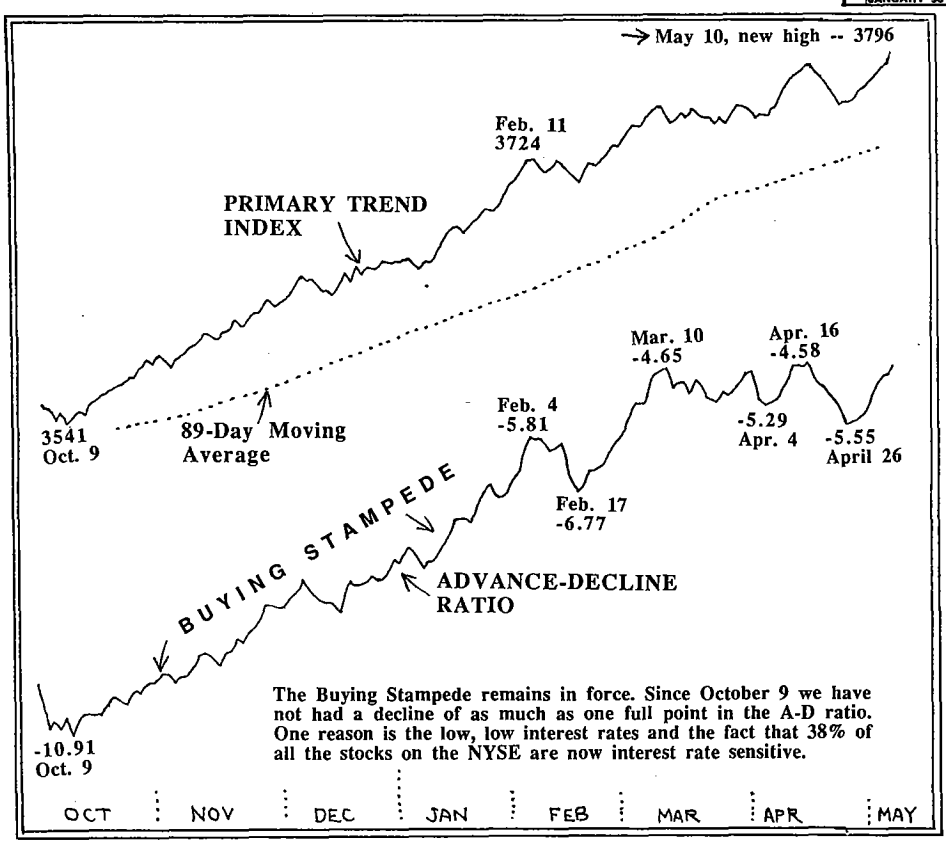
This is important: $500 billion worth of US Treasury paper is held overseas. As the dollar slides, foreign holders of T-bonds sustain paper losses. Already, Japanese holders of T-bonds have lost almost two years worth of interest. Now the German, the Swiss, the British are losing money on US holdings.

The dollar is the world's reserve currency. Every central bank holds part or most of its reserves in dollars. Therefore, a sliding dollar presents the central banks with a dicey situation. Spectacular losses are involved when a reserve currency declines.

Of course, the great danger is that somewhere down the line there will be a run on the dollar. This would require the Fed to raise interest rates to defend the dollar. And since low interest rates are the key to today's stocks market, the last thing the Fed and the administration would want to see would be rising interest rates



(chart courtesy of *Investor's Business Daily*)



GOLD: I guess you could call this Letter "The Special Gold Issue." So let's call it that.

News note: George Soros, the international fund manager and investor (he recently made over one billion dollars on the exit of the pound from the ERM) has agreed to buy a $400 million stake in Newmont Mining, the Denver-based gold mining company. Soros will buy 6.8 million shares of Newmont from Sir James Goldsmith, leaving Sir James with a 30% stake in Newmont. Meanwhile, Sir James announces that he will take a major position in gold via options. This news created quite a stir in the gold market.

Item: The world supply of gold in 1993 will amount to roughly 77.6 million troy ounces -- worth $27 billion. This is equal to about 21 days of US federal deficits . . . The capitalization of ALL the major gold mines amounts to about $40 billion, which is equal to half the capitalization of Exxon.

To start with, please study the gold chart on page 4. This is a chart graciously sent to me by my friend, John Carder, Colorado's master computer-whiz.

To start with, I want to discuss the technical position of gold, and I will tell you right now that my view of gold's technical position is different from almost anything else you will read or hear about. Furthermore, I'm convinced that my analysis is the correct one.

The chart covers all the gold action from 1980 to the present, and it's drawn to semi-log (ratio) scale. As you know, ratio scale depicts percentage of advance or decline. Thus a rise from 30 to 60 (a 100% rise) will take up the same distance on the chart as a rise from 350 to 700. Ratio charts have another great advantage -- trendlines drawn on a ratio chart will properly depict actual rates of growth.

Note that the last bull market in gold topped out in January 1980 at a gold price of **850.** From the 1980 bull market peak, a severe bear market started. The bear market lasted for five years and carried gold down to a **February 1985 low of 284.** The 284 low represented the extreme low for the bear market. In the eight years that have elapsed since February 1985, gold has never been lower.

When a bear market declines to its lowest price, by definition that low price marks the bottom of the bear market. It follows, then, that the gold bear market ended in February 1985 at a price of 284 .

Now I know that many analysts claim that "gold has been in a bear market ever since 1980." But you know what -- those analysts are dead wrong. If gold had been in a bear market since 1980, then we should have seen new lows (below 284) in the years following 1985. That never happened. Consequently, by definition, THE BEAR MARKET ENDED FOR GOLD IN FEBRUARY 1985 AT A PRICE OF 284 .

When a bear market ends, again by definition, a new bull market is born. At its inception, the new bull market may not be obvious. In fact it may take weeks or even months for the new bull trend to become apparent. But when prices cease going down, they have only one way to go, and that's UP.

So I'm stating that a new primary bull market began from the 284 low of 1985. The first phase of the new bull market (see chart) saw gold climb from 284 in 1985 to 499.75 in December 1987, a rise of 74%. That rise represented the first phase of the new gold bull market.

Then a curious thing happened. From 1987 to March 1993 gold embarked on an extended, six-year downward correction. This correction took gold from the 499.75 of 1987 to March 1993 low of **326**. The long, tedious decline to the 326 low served one purpose -- it turned investors stone-bearish on gold. And in so doing, it moved gold from weak hands to strong hands. During the long 1985 to 1993 correction even the gold-philes and gold-bugs turned bearish on gold. It was "give-up time" for the yellow metal.

But note that even after six years of downside corrective action, the bull market was still intact. On the long, tedious decline gold never broke below 300. And gold certainly never got near its 1985 bear market low of 284.

Now in my experience I would say that there's nothing more bullish than a bull market that has been held back -- thwarted in its desire to express itself. And that's exactly what's happened to gold. Following gold's first phase rise to its 1987 high, it entered a long corrective period, and during that period the primary trend of gold was held back, it was thwarted. This counter-trend action should work on gold much like a spring that has been compressed. The energy that should have been expressed in higher gold prices during 1987-93 was bottled up. It was compressed.

But the primary trend of a stock or gold or any other item cannot be reversed at will, nor can it be manipulated by the Fed, the Treasury or any man or group of men. Every primary trend ends in only one way -- total exhaustion.

Two weeks ago we witnessed something very significant for gold. At that time gold rallied above the 350 level. In doing so, it reversed a 13-year declining trendline as seen on this semi-log chart. With this "signal," I believe gold has finally entered the very early part of the second phase of its bull market.

PHASES: The first phase of a bull market (1985 to 1987 in the case of gold) is the one where only the most far-sighted professionals accumulate the item -- and they accumulate early -- at bargain prices. In the first phase the public remains singularly disinterested in the item, and the item continues to remain very much out of favor. (Remember how gold was despised during its long 1980 to 1985 decline?)

The second phase of a bull market is usually the LONGEST phase. This is the phase where the professionals move in and assume large positions. It is also the phase where public sentiment changes, where the public gradually turns bullish, and where the public finally starts to invest in harmony with the primary trend of the market.

As I said, I believe that we're now moving into the early part of the second phase of the gold bull market. If I'm correct (particularly in view of the fact that the gold bull market has been held back for six years), we should see some dramatic upside action for gold in the weeks and months ahead.

Since the first phase of the bull market ended at 499, I would think that the second phase, before it's over, should take gold well above the 499 level. How it does this, how long it takes to do this, what form the rise takes, I obviously can't tell.

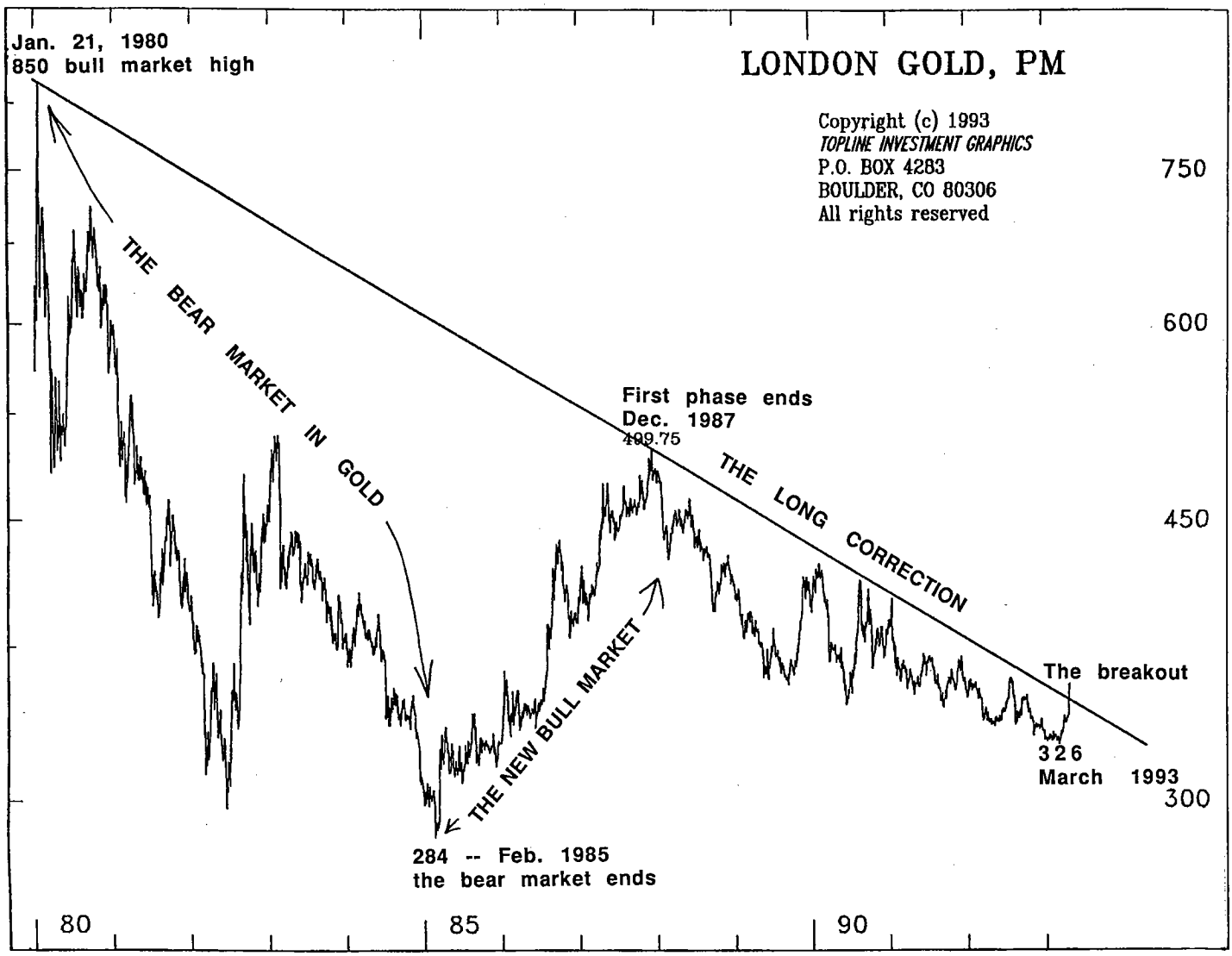
But I will make this prediction -- the US government will hate the gold bull market, since rising gold implies a preference for tangible assets over fiat paper (dollars). Furthermore, in the public's mind, rising gold means inflation, and if inflation arrives, the Fed will be forced to fight inflation via higher interest rates. Therefore, I expect the US government to fight the gold bull market every step of the way -- with words, with warnings, with manipulation, and even to the point where they ask foreign central banks to dump quantities of their gold on the open market.

However, it is well to remember that the US government fought gold in the '70s, back when gold was selling at 35 dollars to the ounce. Even now the US government refuses to get into reality in that it still values the US stockpile of gold at 42 dollars per ounce. The US government pretends that the market price of gold is an anomaly and that gold is only worth the "official" US price of $42 as far as they're concerned.

Finally, I discussed the first and second phase of a bull market, but what about the third and final phase of a bull market? This is the phase where speculation becomes rampant, where rumors are flying, where the public jumps in with both feet. The last time we saw a third phase bull market in gold was during 1979-80. It may be some time before this bull market moves up in a third phase, but there will be a third phase -- it's only a matter of time (of course, remember, gold is just moving into the second phase of the bull market as this is written).

GOLD FUNDAMENTALS: The fundamentals for gold are quite interesting. Consider this: *American Precious Metals Advisors* (they are consultants to gold mines and to central banks) states that the total supply of gold for 1990 was 93.2 million troy ounces. For 1991 it was 96 million ounces. For 1992 it was 99 .9 million ounces. But for 1993 the gold supply will DROP to 77.6 million ounces.

Then including jewelry, industrial use, official purchases and sales and coinage, *APMA* states that the total gold stock changes were as follows: In 1990 there was an overage of 19.2 million troy ounces; for 1991 there was an overage of 19.5 million ounces; for 1992 there was an overage of 15.2 million ounces, and for 1993 there will be a SHORTFALL OF 11.8 million ounces of gold.



In other words, the supply/demand equation for gold has changed -- demand is now outpacing supply. Furthermore, with the rise of capitalism and free enterprise across the face of Asia there is an accelerating demand for gold from that part of the world.

China, in fact, has now become the world's largest buyer of gold (much of it through illegal channels). Credit Suisse states that gold demand from China this year could rise to 1,000 metric tons -- from 400 metric tons last year. Taiwan, Vietnam, Hong Kong and Singapore are also large buyers of gold. Most of the gold bought in China is for jewelry, but it is estimated that the Chinese central bank bought 10 million ounces of gold. States Stewart Murray of *Gold Fields Mineral Service*, "More recently it's been a question of people being concerned about a whole raft of things. There's the situation in Russia and Yugoslavia. You're starting to hear concern from time to time about Clinton's economic policy and what that will mean for inflation. Interest rates are slowly coming down in Europe and have already come down in the US and Japan, so there's not as much competition for investor's assets." Says Harry Bingham, who runs the $535 million International Investors Fund, "Worldwide disinflation is coming to an end, and the next is reflation."

WHAT DO WE DO ABOUT IT? I have to assume that most of my subscribers now own some kind of gold or gold derivative. After all, what other advisory report has had a section on gold in each and every issue (going back to 1960)?

At any rate, if you are a new subscriber and you have no gold or if you don't have enough gold, here's what you can do.

(1) Buy gold coins. Buy American Eagles or Maple Leafs or Krugerrands or Coronas. Just be sure you use an honest, reliable dealer. Gold coins represent the safest and most conservative way of owning gold. When you buy gold coins, you have personal possession of the metal.

(2) Buy gold mining stocks. I've mentioned the stocks I like many times but among them are Freeport McMoran, Newmont Mining, Newmont Gold, Placer Dome, American Barrick, Pegasus, Royal Oak, Agnico Eagle.

(3) You can buy gold futures, but I don't generally advise this method for my subscribers (with the exception that if you know commodities and are aware of the risks involved, gold futures make sense).

(4) You can buy options on gold futures. These options (which I previously recommended) have moved up substantially. You will have to get quotes from your broker on the options, but the ones I like are the 370s of December, the 380s of December, and even the 400s of December. (Note that I like the December options, which are now seven months away. Obviously, the more time you give yourself on an option, the better chance you have of collecting -- but the longer the option, the more expensive it's going to be.)

NOTES & QUOTES: The best description I've heard of the present situation in the US is this -- "We've got a left-of-center president trying to deal with a right-of-center nation." The result -- struggle, frustration, compromises.

* *

It's obvious that Senator Bob Dole is beginning to feel his oats. Coming from a poor family, wounded severely during WWII, a conservative and a fighter, Dole sees Clinton as a draft dodger, a compromiser, a totally political product and a fairly easy mark. More than that, Dole senses the nation's growing uneasiness regarding the Clinton program. Watch as Dole become Clinton's nemesis (if he hasn't already).

* *

The latest Purchasing Agents barometer dropped to 49.6%. Anything below 50% means that the economy is contracting. So it seems that the US could be sinking back into recession. The Leading Indicators also dropped a full 1%. On top of that, copper (an excellent economic barometer) has caved in to the low 80s. Lumber has smashed down to 311 from 440. And businessmen's confidence is sliding, reflecting increasing dismay at what Clinton has to offer. Consumers too, are pulling in their horns. The specter of a tax-a-holic president is hardly calculated to make Americans run out and buy more.

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This chart by Ed Hyman of the *ISI Group* is, I think, very significant. It shows real (inflation-adjusted) weekly earnings down to a multi-year low. Americans are feeling squeezed. They're thinking of pink slips and higher medical costs and more and more taxes.

* *

The Clinton administration amateurs thought they could solve the Japanese/American trade imbalance the easy way -- by announcing that they want "a stronger yen" (and by implication, a weaker dollar). Of course, we've had "a stronger yen" for years (see chart in the last Letter), but the stronger yen and weaker dollar have, so far, done nothing to solve the Japanese/American deficit problem. In the face of the administration's dollar bashing, the yen has risen to new highs against the dollar. So far this year, the dollar has lost 12% of its value against the yen, and the situation was starting to become dangerous. Dangerous? Yes, Japan holds $230 billion in dollar-denominated assets, and the Japanese were getting very edgy about their losses. In the face of warnings about "repatriation of assets," the US administration did a reverse, as Treasury Secretary Bentsen tried to explain away "some misperceptions." The Clinton novices, it seems, have a lot to learn about international economics and finance.

The irony of the stronger yen, cheap dollar, is this: Japan must import all its oil. The oil is paid for in dollars. Since 1985 the dollar has lost 50% of its value against the yen, which means that Japan's oil bill has become dramatically smaller. In 1981 Japan spent 5% of its GDP on oil, but it now spends only 1% of GDP on oil. This has given Japan billions of additional dollars to invest in infrastructure and foreign assets. The cheap dollar has been a bonanza for Japan. And all those billions in lost dollar value could have been used by US investors to build wealth. The steadily declining dollar has been a disaster for the US. A strong currency is both a sign of strength and a wealth-builder for any nation.

* *

London's *Economist* magazine periodically publishes their "Big Mac" currency gauge. This study compares the price of a Big Mac hamburger (which the *Economist* claims is a "universal commodity") in various countries. In this way, they can check the overvaluation or undervaluation of the dollar. To start with the average price of a Big Mac in four American cities is $2.28. On this basis, the Danish currency is 86% overvalued compared with the dollar, Japan is 51% overvalued, France is 52% overvalued, Sweden is 50% overvalued, Switzerland is 72% overvalued, Britain is 23% overvalued, Italy is 30% overvalued. The bargain countries -- Australia 23% undervalued, Canada 4% undervalued, Hungary 22% undervalued, Russia 50% undervalued, Thailand 16% undervalued.

* *

The latest issue of *Money* magazine analyzes the 30 Dow Industrials and states that eight of them are worth buying now. The eight starting with the best are: (1) McDonalds, booming overseas sales, (2) AT&T, becoming a growth company via high-tech acquisitions, (3) Allied Signal, cost cutting, (4) duPont, hot sales of oil, polymers and fibers (5) Caterpillar, booming sales, (6) GE, expect another major acquisition, (7) Kodak, getting rid of losing divisions, and (8) Merck, developing some of the most exciting new drugs.

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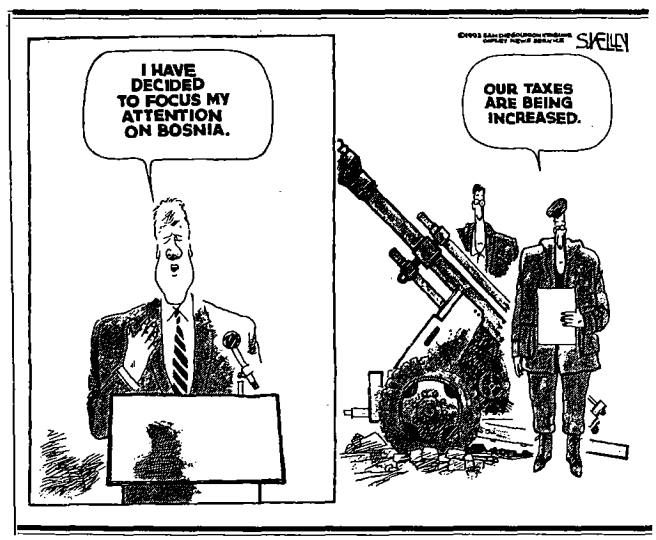
Steve Kelly, our local *San Diego Union* cartoonist, has made a national name for himself (he's a stand-up comedian as well). Steve is no Clinton booster, as this latest cartoon suggests.



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I've been reading J.P. Morgan advertisements for years. Their latest ad reads: "You've just come into a sizable sum of money. You know what to do first. But what do you do second?" I suppose their answer is to call Morgan (which offers a private banking service). Now the Morgan name is a great, prestige name, but I've never, ever seen any record of their performance in handling money. So I'm asking my subscribers, "Have you had any dealings with J.P. Morgan? If so, I'd be interested in how they did for you." Many thanks.

* *

While filling up my little Honda at a local gas station, I ran into a lady friend. I asked her what she's doing these days, and she said she's busy writing to sponsors of Rush Limbaugh's radio program and demanding that they halt their advertising. I asked her why she would go to all that trouble. She said, "That awful Rush, he calls the president names, he calls him a liar right on the air." I said, "Well, he is a liar. What's wrong with the truth." She countered, "Well, I think it's terrible. He's the president of the United States, and he deserves respect." And I answered, "Nobody deserves respect unless they earn it. The presidential office deserves respect, I agree, but the man himself must earn it." We argued for another five minutes, and I bid her adieu. Yes, I think Clinton lied to us.

What he stands for now doesn't seem to me to have anything to do with what he told us during the election campaign. I'll level with you -- I feel safer at night when I know that Clinton's asleep.

* *

Writing in the April 28 *WSJ,* Paul McCracken says, "The president seems to have accomplished the remarkable feat of selling the citizenry on the need for higher taxes in order to reduce the deficit. He faces a read-my-lips problem, however, if, say by 1986 it turns out that increased spending has swallowed up the increased revenue from higher taxes, leaving us with an outsized deficit."

Russell comment: And as a result the Democrats (that's right, the Democrats) are almost frantic to cut the deficit. What's happening, have the Dems changed? No, they're simply trying to save their jobs. For if the higher taxes go through and the deficit continues to rise, the voters are going to be very, very unhappy, which of course means a lot of Democrats going out and looking for work outside of Washington.

* *

In its greedy efforts to Disney-fy the planet, Disney finally ran into trouble with Euro Disney. Europe and particularly France was never enamored with the concept, and the winter weather didn't help either. Euro Disney (49% owned by Disney) suffered a loss of $203 million for the most recent six months, and the amusement park now has a whopping debt of $3.8 billion. The shares of Euro Disney are now selling at around 14, down 50% from their price when the park opened. Euro Disney states that they are seeking new financing.

* *

Football season is almost here, along with peace -- the owners and players have settled on a 7-year pact, which should make everyone happy. The 1993 draft is now history with San Diego taking the player with the best name in the draft. He's Natrone Means, a 240-pound fullback. They're already saying here that "Natrone Means business." I hope so. Listen, with a name like Natrone, he's got to be good.

* *

Congratulations to my old buddy, Dr. Robert Singer. He was just named president-elect of the American Society for Aesthetic Plastic Surgery, a giant honor. The Doc has probably made one out of every 10 of our Southern California beauties even more beautiful (yep, he practices the only happy kind of surgery).

* *

For years those who wanted to diversify out of the dollar have had their choice of the yen or even more importantly the D-mark. I've been saying that when gold starts to outperform the D-mark, that could be the trigger that would mark the resumption of the gold bull market. Here's a chart (courtesy of Ed Hyman, *ISI*) showing gold in terms of D-marks. The ratio is very close to reversing a seven-year declining trend. If gold starts to outperform the D-mark on a trend basis, the yellow metal will gather an increasing following.

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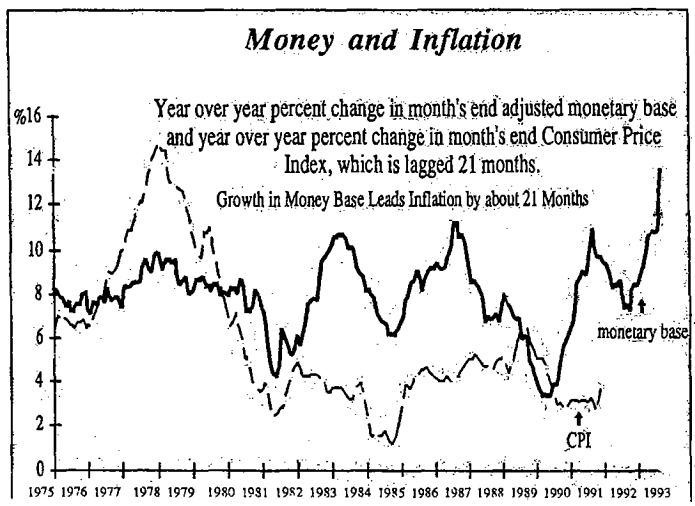
This just came in from the *Sindlinger* FAX service. "Household liquidity hits low for year as Clinton popularity tanks . . . *Sindlinger's* unemployment rate rose to 10.2% . . . while annual growth in *Sindlinger's* Inflation Index held above 9.4% . . . Current Income, our measure of the consumer's ability to spend money, stands at 10.6% below the level of a year ago and 59.2% below the level that historically has signaled an economic expansion. Of the nearly 1,000 household heads surveyed last week, 69.1% indicate that their income was down from six months before." Russell comment: Sindlinger does his own original research, and it differs widely from the government statistics. Who do you believe? I happen to believe Sindlinger.

* *

Here's another interesting chart from *Myers Finance and Energy,* PO Box 3082, Spokane, WA 99220. The year-to-year change in the adjusted monetary base has been booming. This chart indicates that when that has happened in the past, inflation followed.


Money and Inflation
Year over year percent change in month's end adjusted monetary base and year over year percent change in month's end Consumer Price Index, which is lagged 21 months.
Growth in Money Base Leads Inflation by about 21 Months
%16
14
12
10
8
6
4
2
0
monetary base
CPI
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993

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LATE NOTES: If you're at all interested in gold, don't miss the lead-off article ("Yellow Fever") in the April 10 issue of *Barron's.* It's a must. And add Echo Bay (AMEX) to my list of attractive gold shares.

It seems increasingly clear that there's one central key to this market -- the key is low interest rates. Low rates sent the market up, and it's logical to conclude that the market won't really head down until interest rates start climbing again.

Also helping the stock market at this time is the probability that the dollar has bottomed out and is now moving up. Or to put it another way, the currencies (i.e., D-mark, Swissie, Yen, etc.) are tired of rallying. The yen seems to have topped at around 91 on the June contract. (By the way, the yen is worth about .9 of a cent or around 110 to the dollar.)

On April 10 the currencies broke sharply with the dollar in a big surge. Never mind what Mr. Clinton or Mr. Bentsen say, the stock market likes a strong dollar. And the bond market loves a "mighty buck."

Personally, I sold calls on the June D-mark at 65. If any subscribers would like to know more about selling (not buying, selling) options on the currencies, drop me a line. It can be a most interesting procedure and profitable.

Final note: On Monday, May 10, the PTI made a new record high.

NEXT MAILING: May 26, 1993